



City of San Diego
CARL DEMAIO
CITY COUNCILMEMBER –DISTRICT 5

MEMORANDUM

DATE: March 22, 2011

TO: Jan Goldsmith, City Attorney

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Legal Opinion on Preservation of Benefits

As you are aware, the City's annual employee pension costs result from more than one budgeted payment. On top of the annual General Fund payment to support the City's pension system, "preservation of benefit" (POB) payments fund the portion of retiree pension payouts that are above the payout limit imposed on the pension system by the Internal Revenue Service (IRS). In other words, some retiree pension payouts are so high that they exceed the amount that the IRS will allow a pension fund to absorb, and the General Fund and Enterprise Funds pick up the balance.

The POB payments cost the City about \$1.5 million annually. This is merely one of several costs that the City must absorb every year for retirement benefits, contributing to the fact that, in total, all costs of retirement benefits to the City equal roughly 2/3 of the City's entire payroll expense.

I request that the City Attorney's office prepare for my office a memorandum answering the question, Does the City have any legal authority to modify or discontinue the preservation of benefit payments, and, if so, what processes for doing so would be available?

We must find ways to reduce the City's pension costs, and I am intent on exploring every possible option for cost savings to protect San Diego taxpayers. I would like to make sure we get this information on the table, because taxpayer savings may be achieved in next year's budget if we have an opportunity to reform or eliminate the POB payments.

cc: Honorable Mayor and City Councilmembers